

REPORT ON EXAMINATION
OF THE
EVEREST NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

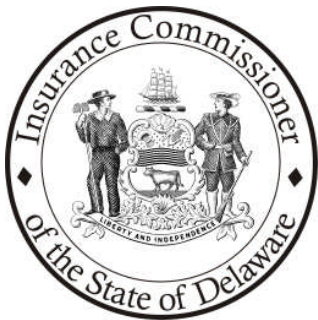
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

EVEREST NATIONAL INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 25 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
EVEREST NATIONAL INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is positioned above a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 25TH Day of JUNE 2008.

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April 30, 2008

SALUTATION

Honorable Alfred W. Gross
Chairman – Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
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State of New Jersey
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Honorable Merle D. Scheiber
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Honorable Morris Chavez
Secretary, Western Zone (IV), NAIC
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Regulation Commission, Insurance Division
1120 Paseo de Peralta
Santa Fe, NM 87504-1269

Honorable Matthew P. Denn
Insurance Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.017 dated September 18, 2007, an examination has been made of the affairs, financial condition and management of

EVEREST NATIONAL INSURANCE COMPANY

hereinafter referred to as “Company” or “ENIC” incorporated under the laws of the State of Delaware. This examination was conducted at the administrative office of the Company located at 477 Martinsville Road, Liberty Corner, New Jersey. The examination of the Company was conducted concurrently with that of its parent, Everest Reinsurance Company (Everest Re) and

its affiliates, Everest Indemnity Insurance Company (EIIC) and Mt. McKinley Insurance Company (McKinley). Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last filed examination of the Company was conducted by the Arizona Department of Insurance as of December 31, 2001. With the approval of the Arizona and Delaware Departments of Insurance, the Company redomesticated from Arizona to Delaware effective November 30, 2005. This examination of the Company covers the period January 1, 2002 through December 31, 2006, and consisted of a general survey of the Company's business practices and policies; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events subsequent to the latter date were reviewed and have been commented upon throughout the examination report to the extent deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regards to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under 18 Del. C. §526(a), and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the workpapers of this examination:

Corporate Records
Fidelity Bond and Other Corporate Insurance
All Assets and Liability items not mentioned

The examination was conducted by the Delaware Department of Insurance in accordance with the Association Plan of Examination Guidelines established by the NAIC. No states participated in the examination.

Workpapers prepared by the Company's external accounting firm, Pricewaterhouse-Coopers, LLP, (PwC) New York, New York, in connection with the annual audit, were reviewed and relied upon to the extent possible.

INS Services, Inc. was retained by the Delaware Insurance Department to conduct a review of the Company's overall control risk related to information system controls.

HISTORY

The Company was organized as a wholly owned stock property and casualty insurance company as a subsidiary of PRUCO, Inc., under the laws of the State of Arizona, under the name Dryden Guaranty Insurance Company on November 12, 1985 and received its first Certificate of Authority on December 31, 1985.

On May 1, 1991, PRUCO, Inc. contributed the Company's stock to Prudential Reinsurance Company (PRC).

On June 13, 1991, the Company changed its name to Prudential National Insurance Company.

On December 31, 1993, PRUCO, Inc. transferred its ownership of PRC to Prudential Reinsurance Holdings, Inc. (PRH) in exchange for 100% of the stock of PRH.

On October 6, 1995, an initial public offering was made of 100% of the stock of PRH, thus creating the present form of the insurance holding company system, which was approved by the Arizona Department of Insurance by order filed December 28, 1995. Subsequently, PRH changed its name to Everest Reinsurance Holdings, Inc. (Holdings), PRC changed its name to Everest Reinsurance Company (Everest Re) and the Company changed its name to Everest National Insurance Company on June 17, 1996.

On November 8, 1999, the Company was acquired by Everest Re Group, Ltd., (Group), a Bermuda domiciled company. With the approval of the Arizona and Delaware Departments of Insurance, the Company redomesticated from Arizona to Delaware effective November 30, 2005.

CAPITALIZATION

At December 31, 2006, the Company had 200,000 common shares authorized with a par value of \$50 per share, of which 100,000 shares were issued and outstanding. The schedule below shows the changes in the Company's capital and surplus from December 31, 2001, to the current examination date.

	<u>Common Capital Stock</u>	<u>Gross paid in and contributed surplus</u>	<u>Unassigned Funds (surplus)</u>	<u>Total</u>
December 31, 2001	<u>\$5,000,000</u>	<u>\$51,600,000</u>	<u>\$(2,879,959)</u>	<u>\$53,720,041</u>
Capital Contributions (1)				
2002		\$20,000,000		\$20,000,000
2004		30,000,000		30,000,000
2005 (1)		476,640		476,640
2006 (1)		1,821,488		1,821,488
Operations (2)				
2002 Operations			\$(3,715,439)	(3,715,439)
2003 Operations			(1,320,155)	(1,320,155)
2004 Operations			17,087,269	17,087,269
2005 Operations			20,595,813	20,595,813
2006 Operations			26,292,039	26,292,039
December 31, 2006	<u>\$5,000,000</u>	<u>\$103,898,128</u>	<u>\$56,059,570</u>	<u>\$164,957,698</u>

- (1) The Company records the value of stock compensation pursuant to Statutory Accounting Practices and Procedures.
- (2) Operations are defined as: Net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change nonadmitted assets, and change in provision for reinsurance.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of its Board of Directors (Board). The Board consists of at least seven members and is not subject to a maximum.

The Board of Directors is currently comprised of seven members, all of whom were elected by the sole shareholder by written consent in June 2006. Each director shall hold office until his successor is qualified and elected, or until earlier resignation or removal.

The members of the Board of Directors serving as of December 31, 2006, were as follows:

<u>Director's Name</u>	<u>Principal Business Affiliation</u>
Thomas James Gallagher, (Chairman)	Everest Reinsurance Company
Daryl Wayne Bradley	Everest National Insurance Company
Mark DiGaetano	Everest National Insurance Company
Larry Allen Frakes	Everest National Insurance Company
Sanjoy Mukherjee	Everest Reinsurance Company
Eric Martin Simpson	Everest Reinsurance Company
Barry Howland Smith	Everest Reinsurance Company

The Company's bylaws provide for the Board, by resolution or resolutions passed by a majority of the Board, to designate one or more committees, each committee to consist of three or more directors of the corporation. The Board may also designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The Company had a Compensation Committee in place as of December 31, 2006. The Board members serving on the committee were as follows:

Thomas James Gallagher
Larry Allen Frakes
Barry Howland Smith

The bylaws of the Company state the officers of the corporation include a President, a Treasurer, a Comptroller, a Secretary, one or more Vice Presidents, Assistant Treasurers, Assistant Comptrollers and Assistant Secretaries, and such other officers, assistant officers or agents (none of whom need be a director) as the Board of Directors from time to time may determine. At December 31, 2006, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Title</u>
Larry Alan Frakes	President and Chief Executive Officer
Daryl Wayne Bradley	Executive Vice President
Gary Richard McKinnon	Senior Vice President and Comptroller
Sanjoy Mukherjee	General Counsel and Compliance Officer
Frank Nicholas Lopapa	Treasurer
Mark DiGaetano	Actuary
Steven Simeoni	Senior Vice President - Claims
Heather Johnston Marvell	Secretary

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at manager level or above for the examination period.

During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(4) “Insurance Holding Company System”. Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

All of the common stock is owned by Everest Re, a Delaware domiciled property and casualty insurer. The ultimate controlling entity of the holding company system is Group. Group’s stock is traded on the New York Stock Exchange under the symbol “RE”. As of December 31, 2006, Group, on a consolidated U.S. Generally Accepted Accounting Principles basis (GAAP), reported approximately \$17.1 billion in assets and \$5.1 billion in shareholders’ equity.

The following organizational chart, of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2006:

	<u>Domicile</u>	<u>% Ownership</u>
Everest Re Group, Ltd.	Bermuda	
Everest Re Advisors, Ltd.	Bermuda	100%
Everest Advisors (Ireland), Limited	Ireland	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%
Everest International Reinsurance, Ltd.	Bermuda	100%
Everest International Holdings, Ltd.	Bermuda	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest Re Capital Trust	Delaware	100%
Everest Re Capital Trust II	Delaware	100%
Mt. McKinley Insurance Company	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
Workcare Southeast, Inc.	Alabama	100%
Workcare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	Delaware	100%
Everest National Insurance Company	Delaware	100%
Everest Insurance Company of Canada	Canada	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%

AGREEMENTS

Service Agreements

The Company has service agreements with its affiliates. The agreements provide each company the service of its employees, supplies, use of equipment and office space and makes payment to third parties for general expenses and state and local taxes. The agreements obligate the affiliate to reimburse the Company providing the services for disbursements made on their behalf and to pay for the cost of providing those services.

These agreements were replaced with a new service agreement effective January 1, 2008, and is detailed in the “Subsequent Events” section of this report.

Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings along with its affiliates. Holdings, the Company and affiliates constitute an affiliated group within section 1504(a) of the Internal Revenue Code of 1986 of which Holdings is the common parent and, therefore, eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis, if necessary. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes, or receive a lesser refund, than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Guarantee Agreement

Effective April 26, 2003, the Company entered into a parental guarantee agreement with Everest Re. Since the agreement does not expose the assets of the Company to any liabilities, it was not subject to Arizona’s filing requirements. According to the agreement Everest Re

guarantees that the Company's capital and surplus will not fall below \$15 million. Furthermore, this agreement is subject to an aggregate of \$75 million.

Investment Advisory Agreement

The Company and its affiliates share a common investment manager, Deutsche Investment Management Americas, Inc. (Deutsche). The agreement, effective July 1, 1996, authorizes Deutsche to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Deutsche in writing from time to time. The total investment expenses incurred by the Company for 2006 were approximately \$100,000.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact multiple property and casualty lines of insurance in 47 states (all except Hawaii, North Carolina and Vermont), and the District of Columbia. The Company writes business primarily through agency relationships with program administrators. At December 31, 2006 the Company had eighteen active programs in place offering coverage including: general liability, professional liability, workers' compensation, medical malpractice, commercial property, motor vehicle and non-standard auto. The following summarizes the largest producers:

1. C.V. Starr & Co. (C.V. Starr) writes excess liability coverage for risks classified as commercial construction, residential construction, public entity and general liability coverage.
2. Inter-Reco, Inc. (Inter-Reco) writes contractors' general liability in New York.
3. Professional Business Owners Association, Inc. (PBOA) writes workers' compensation coverage in Florida.

4. Insight Insurance Services, Inc. (Insight) writes errors and omission coverage for small accounting, architectural and engineering firms. The program is written on a claims made basis.
5. Landscape Contractors' Insurance Services, Inc. (LCIS) writes commercial packages and auto coverage to members of the California Landscape Contractor Association.
6. All Risks Limited (All Risks WC) writes workers' compensation in states in which it is licensed other than California.
7. Tangram Program Managers and Insurance Services, Inc. (Tangram) writes non-profit workers' compensation generally in California with limited splinter state eligibility.
8. Northwest Insurance Agency, Inc. (Northwest) writes lower hazard/severity workers' compensation insurance in California.
9. Networked Insurance Agents (Networked) writes lower hazard/severity workers' compensation insurance in California.
10. All Risks Limited (All Risks CA WC) writes workers' compensation only in the state of California for this program.
11. Mackinaw Administrators, LLC (Mackinaw) writes workers' compensation programs in Michigan.

The following table details the 2006 direct written premiums by program:

<u>Program</u>	<u>Direct Premium</u>	<u>Percentage</u>
C.V. Starr	\$116,412,300	20.06%
Inter-Reco	66,268,765	11.42%
PBOA *	43,754,942	7.54%
Insight	40,306,879	6.94%
LCIS	33,742,275	5.81%
All Risks WC	30,305,973	5.22%
Tangram	30,007,889	5.17%
Muirfield (run-off)	29,339,543	5.05%
Northwest	22,784,437	3.93%
Networked	17,988,549	3.10%
All Risks CA WC	11,910,569	2.05%
Mackinaw *	9,951,639	1.71%
All Others	<u>127,653,916</u>	<u>22.00%</u>
Total	<u>\$580,427,676</u>	<u>100.00%</u>

* This is an MGA as defined in 18 Del. C. §1802(3) "Managing general agent" and was properly disclosed in the 2006 annual statement Notes to the Financial Statements

The Company, in concert with its affiliates, has employed several Claim Service Providers (CSPs) to manage claims. The CSPs, which have claim payment and reserving authority, manage specific programs for the Company as follows:

<u>CSP</u>	<u>Program</u>
Cambridge	Muirfield
Carl Warren and Company	LCIS
Gallagher Basset Services	All Risks, Tangram
Mackinaw	Mackinaw
PBOA	PBOA
Specialty Risk Services	Northwest, Networked
UTC Risk Management	Inter-Reco

GROWTH OF COMPANY

The following information was obtained from the Company's filed annual statements and covers the period from the prior examination to December 31, 2006:

<u>Year</u>	<u>Net Written Premium</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Common Stock</u>	<u>Gross paid in and contributed surplus</u>	<u>Unassigned Funds (surplus)</u>	<u>Net Income</u>
2001	\$53,428,566	\$259,440,036	\$205,719,995	\$5,000,000	\$51,600,000	\$(2,879,959)	\$4,227,226
2002	100,783,200	427,432,624	357,428,023	5,000,000	71,600,000	(6,595,398)	(5,714,702)
2003	136,398,868	518,182,197	449,497,751	5,000,000	71,600,000	(7,915,553)	7,019,239
2004	137,160,187	764,412,799	648,641,083	5,000,000	101,600,000	9,171,716	13,652,734
2005	105,457,440	608,626,468	471,782,297	5,000,000	102,076,640	29,767,531	19,759,384
2006	87,984,584	574,664,698	409,707,001	5,000,000	103,898,128	56,059,570	21,042,536

The growth over the examination period has taken the form of the following: 121.5% increase in assets; 99.2% increase in liabilities; 2046% increase in unassigned surplus. The following factors contributed to the Company's policyholder surplus growth:

- The Company received cash capital contributions from the Parent during the examination period totaling \$50,000,000.
- Assets have increased approximately 20 basis points more than liabilities during the examination period. The Company invested primarily in municipal bonds in order to

minimize federal income taxes and support statutory deposit requirements related to the growth in workers' compensation business in California.

REINSURANCE

For 2006, the Company reported the following distribution of net written premiums:

Gross Premiums:	
Total Direct Written Premiums	\$580,427,676
Total Assumed Premiums	<u>7,067,098</u>
Total Gross Premiums	<u>\$587,494,774</u>
Ceded Premiums:	
Everest Re – 85% Global Quota Share	\$471,011,161
Everest Re – Specific Treaties	26,725,204
Outside Reinsurers	<u>1,773,826</u>
Total Ceded Premiums	<u>\$499,510,191</u>
 Net Written Premiums	 <u>\$ 87,984,584</u>
 Percentage of Ceded to Gross	 85.0%

Assumed

The Company assumes business from NCCI, the mandatory workers' compensation pool. Assumed premium during 2006 was \$7,067,098. The Company does not assume any other business.

Ceded

The Company limits its exposure through an 85% Global Quota Share reinsurance agreement with Everest Re. This agreement was properly filed with and approved by the Delaware Insurance Department. Under this agreement, the Company ceded \$471.0 million, or 94.3%, of \$499.5 million total 2006 ceded written premiums. Under related agreements, which inure to the benefit of the global quota share reinsurance agreement, Everest Re, in turn, cedes this business to affiliated and unaffiliated reinsurers under various reinsurance agreements. Everest Re is liable to the Company pursuant to the terms of those agreements. Program-specific

quota share and excess of loss reinsurance premiums with Everest Re and outside reinsurers are \$26.7 million and \$1.8 million, respectively. The largest net aggregate amount insured in any one risk, excluding workers compensation, was \$1.8 million at December 31, 2006.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company operates in a computer dominant environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2006
Liabilities, Surplus and Other Funds as of December 31, 2006
Underwriting and Investment Exhibit - Statement of Income, 2006
Capital and Surplus Account for the one-year period ending December 31, 2006

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Analysis of Assets
As of December 31, 2006

<u>Assets</u>	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$270,650,447		\$270,650,447	(1)
Cash, cash equivalents and short-term investments	15,849,694		15,849,694	
Receivables for securities	29,337		29,337	
Investment income due and accrued	3,745,513		3,745,513	
Premiums and agents balances in course of collection	33,587,975	\$11,211,313	22,376,662	
Premiums, agents balances and installments, booked but deferred and not yet due	82,028,272	357,226	81,671,046	
Amounts recoverable from reinsures	42,811,863		42,811,863	
Net deferred tax asset	16,333,951	9,045,193	7,288,758	
EDP Equipment and software	242,061		242,061	
Furniture and equipment	206,727	206,727	0	
Receivables from affiliates	3,062,140		3,062,140	
Aggregate write-ins for other than invested assets	<u>126,937,177</u>	<u></u>	<u>126,937,177</u>	(2)
Total	<u>\$595,485,157</u>	<u>\$20,820,459</u>	<u>\$574,664,698</u>	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		<u>Note</u>
Losses	\$113,576,131	(3)
Reinsurance payable on paid losses and loss adjustment expenses	653,778	
Loss adjustment expenses	26,777,240	(3)
Commissions payable	8,559,457	
Other expenses	15,429,321	
Taxes, licenses and fees	2,130,877	
Federal and foreign income taxes	1,609,940	
Unearned premiums	51,277,477	
Advance premiums	190,252	
Policyholder dividends declared and unpaid	1,551,477	
Ceded reinsurance premiums payable	160,518,277	
Funds held by company under reinsurance treaties	21,778,653	(4)
Amounts withheld by company for account of others	2,472,114	
Remittances and items not allocated	698,716	
Payable to affiliates	1,554,308	
Aggregate write-ins for liabilities	928,982	
Total liabilities	<u>\$409,707,000</u>	
Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	103,898,128	
Unassigned funds	56,059,570	
Surplus as regards policyholders	<u>\$164,957,698</u>	
Total	<u>\$574,664,698</u>	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2006

Note

Underwriting Income

Premiums earned	<u>\$96,966,036</u>
Deductions:	
Losses incurred	\$40,474,895
Loss expenses incurred	13,582,840
Other underwriting expenses incurred	<u>20,704,569</u>
 Total underwriting deductions	 <u>\$74,762,304</u>
 Net underwriting gain (loss)	 <u>\$22,203,732</u>

Investment Income

Net investment income earned	\$11,679,285
Net realized capital gains (losses)	<u>180,272</u>
 Net investment gain (loss)	 <u>\$11,859,557</u>

Other Income

Net gain (loss) from premium balances charged off	\$(2,848,336)
Finance and service charges not included in premiums	1,582
Aggregate write-ins for miscellaneous income	<u>(802,630)</u>
 Total other income (loss)	 <u>\$(3,649,384)</u>
 Net income before dividends and federal income taxes	 \$30,413,905
Dividends to policyholders	2,922,254
Federal income taxes incurred	<u>6,449,114</u>
 Net income	 <u>\$21,042,536</u>

Capital and Surplus Account

		<u>Note</u>
Surplus as regards policyholders, December 31, 2005	<u>\$136,844,171</u>	
Net income	\$ 21,042,536	
Change in net unrealized capital gains or (losses)	128,483	
Change in net deferred income tax	(2,623,013)	
Change in nonadmitted assets	7,744,034	
Surplus adjustments paid in	<u>1,821,488</u>	(5)
Change in surplus as regards policyholders for the year	<u>\$ 28,113,528</u>	
Surplus as regards policyholders, December 31, 2006	<u>\$164,957,698</u>	

Examination Financial Changes

There were no adjustments proposed to the Company's financials as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

1) Bonds \$270,650,447

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

US Governments	\$39,440,749
States, Territories and Possessions	40,844,216
Political Subdivisions	44,903,413
Special Revenue	110,397,316
Public Utilities	4,138,750
Industrial and Miscellaneous	<u>30,926,003</u>
Total	<u>\$270,650,447</u>

Bonds are designated by the SVO with the highest quality being "1" and lowest being "6". The Company held bonds rated as 1 or 2 with total values of \$265,757,685, bonds rated as 3 with a total value of \$3,853,792 and bonds rated as 4 with a value of \$1,038,970. Bonds with

carrying values of \$168,441,561 were on deposit with various states or governmental insurance departments in compliance with insurance laws.

2) Aggregate Write-ins for Other Than Invested Assets \$126,937,177

The components of the year-end balance consist of \$90,446,311 amount due from affiliate Everest Re under the 85% quota share reinsurance agreement, \$15,961,114 in deposits with claim service providers, \$10,736,713 accounts receivable and \$9,793,039 in miscellaneous assets.

The amount due from affiliate ERC under the 85% quota share reinsurance agreement was received in 2007.

3) Loss Reserves \$113,576,131
Loss Adjustment Expense Reserves \$26,777,240

Loss and loss adjustment expense (LAE) reserves represent 34.3% of the Company's liabilities as of December 31, 2006. Incurred but not reported loss (IBNR) reserves were 56.8% of total net loss reserves at year-end 2006.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted.

4) Funds Held By Company Under Reinsurance Treaties \$21,778,653

Effective January 1, 2004 an existing reinsurance agreement with the Company and its parent, Everest Re was amended to include a funds withheld provision. As such, the amounts reported as funds held are not held pursuant to collateral requirements, but rather are held to provide funds to enable the Company to make the workers' compensation deposits as required by California Insurance Code section 11691.

5) Surplus Adjustments Paid In \$1,821,488

This balance increase of \$1,821,488 from year-end 2005 to year-end 2006 was due to share-based compensation of the parent directly attributed to the employees of the subsidiaries.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

- (1) It was observed that the Company does not maintain adequate supporting documentation evidencing its determination of the qualification and continued monitoring of securities reported with a provisionally exempt (PE) designation. However, subsequent to the prior examination date and prior to its redomestication to the State of Delaware, the Company

elected to discontinue the use of PE designations and file all securities with the NAIC Securities Valuation Office.

SUMMARY OF RECOMMENDATIONS

There were no examination recommendations.

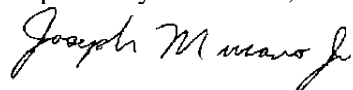
CONCLUSION

As a result of this examination, the financial condition of Everest National Insurance Company, as of December 31, 2006, was determined as follows:

<u>Description</u>	<u>12/31/06 Current Examination</u>	<u>12/31/01 Prior Examination</u>	<u>Changes Increase (Decrease)</u>
Assets	<u>\$574,664,698</u>	<u>\$261,140,036</u>	<u>\$313,524,662</u>
Liabilities	\$409,707,000	\$212,425,995	\$197,281,005
Common capital stock	5,000,000	5,000,000	0
Gross paid in and contributed capital	103,898,128	51,600,000	52,298,128
Unassigned funds (surplus)	<u>56,059,570</u>	<u>(7,885,959)</u>	<u>63,945,529</u>
Total surplus as regards policyholders	<u>\$164,957,698</u>	<u>\$ 48,714,041</u>	<u>\$116,243,657</u>
Totals	<u>\$574,664,698</u>	<u>\$261,140,036</u>	<u>\$313,524,662</u>

In addition to the undersigned, acknowledgment is made of the assistance provided by the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,



Joseph J. Murano, CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Service Agreement

Effective January 1, 2008, the Company entered into a service agreement with all affiliates of the Everest Re Group, thereby replacing the existing individual service agreements with affiliates previously mentioned under the “Agreements” section of this report. Each affiliate agrees to provide administrative, consultative and other support services to the other affiliates as needed. In return, the recipient affiliate agrees to pay the service providing affiliate 100% of its costs and expenses incurred in providing those services. The new service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.

Centrix Program

The Company issued modified property insurance coverage, in connection with a program administered by Centrix Financial, LLC (Centrix), commencing in August 2003. That program was in runoff by the second quarter of 2006. Under the program, Centrix originated substandard vehicle loans primarily through credit unions. The insurance provided coverage if a series of events occurred. First, the first payment on the loan must be made by the borrowers; second, the underlying loan must default; third, the vehicle must be repossessed and then finally the vehicle must be sold at auction. If any of those four conditions are not met, the Company is not liable. If all of the events occur, and other terms and conditions in the policy are satisfied, the Company will reimburse the insured for the difference between the outstanding loan balance and the deemed proceeds from the sale of the car in accordance with the terms of the policy.

The Company cedes 100% of losses exceeding a 20% per loan year claim frequency rate to Everest Re, who in turn, cedes 100% of the amount to Founders Insurance Company (“Founders”), an affiliate of Centrix. The Company further cedes 85% of the losses retained by it

to Everest Re under an inter-company reinsurance agreement. Currently the Company and its affiliates are involved in litigation with Centrix, Founders, and several principles and/or former officers of those entities.